

Q1 2022



bluesky
DIGITAL ASSETS

**UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED MARCH 31, 2022**

(EXPRESSED IN CANADIAN DOLLARS)
(UNAUDITED)

MAY 30, 2022

www.blueskydigitalassets.com



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Notice To Reader

The accompanying unaudited condensed consolidated interim financial statements of Bluesky Digital Assets Corp., have been prepared by and are the responsibility of management. The unaudited condensed consolidated interim financial statements have not been reviewed by the Company's auditors.

Bluesky Digital Assets Corp.
Condensed Interim Consolidated Statements of Financial Position
(Expressed in Canadian Dollars)
Unaudited

	As at March 31, 2022	As at December 31, 2021
ASSETS		
Current assets		
Cash	\$ 1,401,895	\$ 854,233
Accounts and other receivables (note 4)	5,013	126,913
Prepaid expenses	652,350	249,884
Investments (note 10)	92,804	149,834
Digital currencies (note 6)	2,678,305	2,407,442
Total current assets	4,830,367	3,788,306
Property, plant and equipment (note 7)	5,382,808	4,708,024
Right of use assets	208,120	223,859
Total assets	\$ 10,421,295	\$ 8,720,189
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities		
Accounts payable and accrued liabilities (note 11)	\$ 1,545,656	\$ 998,635
Lease liability (note 9)	65,799	37,071
Total current liabilities	1,611,455	1,035,706
Non-current liabilities		
Lease liability (note 9)	145,528	189,903
Warrant liability (note 12)	1,906,455	2,541,235
Loans payable (note 13)	70,000	70,000
Total liabilities	3,733,438	3,836,844
Shareholders' equity		
Share capital (note 14)	22,522,260	20,611,230
Contributed surplus (note 16)	5,547,826	5,547,826
Warrants	3,982,706	3,355,097
Digital currency revaluation reserve	33,723	181,613
Deficit	(25,398,658)	(24,812,421)
Total shareholders' equity	6,687,857	4,883,345
Total liabilities and shareholders' equity	\$ 10,421,295	\$ 8,720,189

Description of business (note 1)
Subsequent event (note 20)

"Frank Kordy", Director

"Ben Gelfand", Director

The accompanying notes are an integral part of these unaudited condensed consolidated interim financial statements

Bluesky Digital Assets Corp.
Condensed Interim Consolidated Statements of Loss and Comprehensive Loss
(Expressed in Canadian Dollars)
Unaudited

	Three Months Ended March 31, 2022	Three Months Ended March 31, 2021
Revenue		
Digital currency mined (note 6)	\$ 580,583	\$ 710,312
Cost of revenue		
Site operating costs	(398,823)	(173,903)
Depreciation	(616,255)	(118,770)
Gross profit (loss)	(434,495)	417,639
Operating expenses		
General and administration	365,268	419,705
Gain on sale of digital currencies (note 6)	25,085	(32,955)
Share-based payments (notes 14 and 16)	337,189	1,709,000
Total operating expenses	727,542	2,095,750
Loss before other items	(1,162,037)	(1,678,111)
Unrealized (loss) on investments	(56,259)	164,816
Realized (loss) on investments	-	269,149
Foreign exchange (loss) gain	(2,721)	-
Gain on revaluation of warrant liability	634,780	-
Loss before income taxes	(586,237)	(1,244,146)
Total loss for the period	\$ (586,237)	\$ (1,244,146)
Other comprehensive income		
Items that will not be reclassified subsequently to income		
Revaluation of digital currencies, net of tax	(147,890)	(19,087)
Other comprehensive income for the period	(147,890)	(19,087)
Total loss and comprehensive loss for the period	\$ (734,127)	\$ (1,263,233)
Basic and diluted net loss per share (note 18)		
Basic and diluted net loss per share	\$ (0.01)	\$ (0.04)
Basic and diluted net loss per share - continued operations	\$ (0.01)	\$ (0.04)
Weighted average number of common shares outstanding	51,590,517	33,836,819

The accompanying notes are an integral part of these unaudited condensed consolidated interim financial statements

Bluesky Digital Assets Corp.
Condensed Interim Consolidated Statements of Cash Flows
(Expressed in Canadian Dollars)
Unaudited

	Three Months Ended March 31, 2022	Three Months Ended March 31, 2021
Operating activities		
Net loss for the period	\$ (586,237)	\$ (1,244,146)
Adjustments in non-cash operating items:		
Depreciation	399,079	118,770
Digital currencies	(443,838)	(284,699)
Common shares issued for services and compensation (note 14)	-	100,000
Share-based payments	337,189	1,709,000
Gain on revaluation of warrant liability	(634,780)	-
Unrealised investment (gain) / loss	56,259	(164,816)
Realised investment gain	-	(269,149)
Loss (gain) on sale of digital currencies	25,085	(32,955)
Accretion	3,325	2,384
Unrealised foreign exchange (gain)	2,723	15,346
Changes in working capital items and digital currencies:		
Accounts and other receivables	121,900	(13,621)
Prepaid expenses	(402,466)	(16,247)
Accounts payable and accrued liabilities	547,021	50,206
Net cash used in operating activities	(574,740)	(29,927)
Investing activities		
Proceeds from sale of investments	-	319,149
Purchase of equipments	(1,058,124)	(2,685,494)
Net cash used in investing activity	(1,058,124)	(2,366,345)
Financing activities		
Proceeds from issuance of common shares (net of issuance cost paid of \$107,300 for 2022 and \$61,660 for 2021)	2,201,450	2,136,340
Lease payments paid	(18,972)	(19,151)
Stock options and warrants exercised	-	1,021,620
Proceeds / (repayments) of loans payable	-	(32,955)
Net cash provided by financing activities	2,182,478	3,105,854
Net change in cash	549,614	709,582
Cash, beginning of period	854,233	1,075,495
Exchange differences on cash	(1,952)	-
Cash, end of period	\$ 1,401,895	\$ 1,785,077

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Bluesky Digital Assets Corp.
Condensed Interim Consolidated Statements of Changes in Equity
(Expressed in Canadian Dollars)
Unaudited

	Share Capital			Total share capital \$	Contributed Surplus \$	Warrants \$	Digital currency revaluation reserve \$	Deficit \$	Total \$
	Preferred shares \$	Preferred shares to be registered \$	Common shares \$						
Balance, December 31, 2020	2,889,855	(353,057)	13,316,732	15,853,530	2,865,481	1,160,869	-	(18,506,701)	1,373,179
Issuance of common shares (net of share issue costs of \$139,848)	-	-	2,043,152	2,043,152	-	-	-	-	2,043,152
Shares issued for debt	-	-	100,000	100,000	-	-	-	-	100,000
Units issued for preferred shares	(835,170)	-	626,119	(209,051)	-	215,732	-	-	6,681
Warrants exercised	-	-	820,359	820,359	-	(105,489)	-	-	714,870
Expiry of warrants	-	-	-	-	3,673	(3,673)	-	-	-
Stock options exercised	-	-	718,447	718,447	(411,697)	-	-	-	306,750
Share-based compensation	-	-	-	-	1,709,000	-	-	-	1,709,000
Revaluation of digital currency net of tax	-	-	-	-	-	-	(19,087)	-	(19,087)
Net loss for the period	-	-	-	-	-	-	-	(1,244,146)	(1,244,146)
Balance, March 31, 2021	2,054,685	(353,057)	17,624,809	19,326,437	4,166,457	1,267,439	(19,087)	(19,750,847)	4,990,399
Balance, December 31, 2021	2,054,685	(353,057)	18,909,602	20,611,230	5,547,826	3,355,097	181,613	(24,812,421)	4,883,345
Issuance of Units (net of share issue costs of \$339,095)	-	-	1,911,030	1,911,030	-	290,420	-	-	2,201,450
Share-based compensation	-	-	-	-	-	337,189	-	-	337,189
Transactions with owners	2,054,685	(353,057)	20,820,632	22,522,260	5,547,826	3,982,706	181,613	(24,812,421)	7,421,984
Revaluation of digital currency net of tax	-	-	-	-	-	-	(147,890)	-	(147,890)
Net loss for the period	-	-	-	-	-	-	-	(586,237)	(586,237)
Total comprehensive loss for the period	-	-	-	-	-	-	(147,890)	(586,237)	(734,127)
Balance, March 31, 2022	2,054,685	(353,057)	20,820,632	22,522,260	5,547,826	3,982,706	33,723	(25,398,658)	6,687,857

The accompanying notes are an integral part of these unaudited condensed consolidated interim financial statements .

Bluesky Digital Assets Corp.
Notes to the Condensed Interim Consolidated Financial Statements
Three Months Ended March 31, 2022
(Expressed in Canadian Dollars)
Unaudited

1. Description of business, going concern and COVID-19

Bluesky Digital Assets Corp. (or the "Company") is a reporting issuer in Ontario, Alberta and British Columbia. In Canada, the Company's common shares trade under the symbol "BTC" on the Canadian Securities Exchange and under the trading symbol "BTCWF" in the United States on the OTC Markets QB. The Company's "Class – A" preferred shares trades under the symbol "BTC.PR.A" on the Canadian Securities Exchange. The Company's corporate office and principal place of business is 100 King West, Suite 5700, Toronto, Ontario, Canada, M5X 1C9.

On May 12, 2020, the Company completed a 12:1 shares consolidation. All share quantities and share prices in these financial statements are stated based on their post-consolidation values, unless otherwise specified.

The Company is in the business of utilizing specialized equipment to solve complex computational problems to validate transactions on the bitcoin blockchain. The Company receives bitcoin in return for successful service.

Going concern

The Company incurred a net loss during the three months ended March 31, 2022 of \$586,237 (2021 - \$1,244,146) and had an accumulated deficit of \$25,398,658 (December 31, 2021 - \$24,812,421). These conditions indicate material uncertainties that may cast significant doubt on the Company's ability to continue as a going concern. As at March 31, 2022, the Company had a working capital balance of \$3,218,912 (December 31, 2021 - \$2,752,600).

The Company's ability to continue as a going concern and realize its assets and discharge its liabilities in the normal course of business is dependent upon maintaining sustained profitability. There are various risks and uncertainties affecting the Company's operations including, but not limited to, the viability of the economics of bitcoin mining, the liquidity of bitcoin, the Company's ability to maintain its security of its digital assets and execute its business plan. Given the volatility in the financial markets, it may be difficult to raise financing when needed. Because of continuing operating losses, the Company's continuance as a going concern is dependent upon its ability to obtain adequate financing and to reach profitable levels of operations. It is not possible to predict whether financing efforts will be successful or if the Company will attain profitable levels of operations. Material uncertainties as mentioned above cast significant doubt upon the Company's ability to continue as a going concern.

These unaudited condensed consolidated interim financial statements have been prepared on the basis of accounting principles applicable to a going concern. Accordingly, they do not give effect to adjustments that would be necessary should the Company be unable to continue as a going concern and therefore be required to realize its assets and liquidate its liabilities and commitments in other than the normal course of business and at amounts different from those in the accompanying unaudited condensed consolidated interim financial statements. Such adjustments could be material. The Company may periodically have to raise funds to continue operations and, although it has been successful in doing so in the past, there is no assurance it will be able to do so in the future

COVID-19

In March 2020, the World Health Organization declared COVID-19 a pandemic. The global response to the pandemic is constantly evolving, including various measures implemented at the global, national, provincial and local levels. The major impacts that COVID-19 are expected to have on Bluesky Digital Assets Corp. include potential increases in digital currency price volatility and delays in receiving future orders of mining hardware and electrical components for future expansion.

Bluesky Digital Assets Corp. has been operating, and is expected to continue operating, throughout the pandemic.

Bluesky Digital Assets Corp.
Notes to the Condensed Interim Consolidated Financial Statements
Three Months Ended March 31, 2022
(Expressed in Canadian Dollars)
Unaudited

2. Basis of presentation

Statement of compliance to international financial reporting standards

The Company applies International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC"). These unaudited condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting. Accordingly, they do not include all of the information required for full annual financial statements required by IFRS as issued by IASB and interpretations issued by IFRIC.

The policies applied in these unaudited condensed consolidated interim financial statements are based on IFRS's issued and outstanding as of May 30, 2022, the date the Board of Directors approved the statements. Except as disclosed in note 3, the same accounting policies and methods of computation are followed in these unaudited condensed consolidated interim financial statements as compared with the most recent annual financial statements as at and for the year ended December 31, 2021. Any subsequent changes to IFRS that are given effect in the Company's annual financial statements for the period ending December 31, 2022 could result in restatement of these unaudited condensed consolidated interim financial statements.

Basis of consolidation

These unaudited condensed consolidated interim financial statements include the accounts of the Company and its controlled subsidiaries. Subsidiaries consist of entities over which the Company is exposed to, or has rights to, variable returns as well as the ability to affect those returns through the power to direct the relevant activities of the entity. Subsidiaries are fully consolidated from the date control is transferred to the Company and are deconsolidated from the date control ceases. The unaudited condensed consolidated interim financial statements include all the assets, liabilities, revenues, expenses and cash flows of the Company and its subsidiaries after eliminating internality balances and transactions.

The following companies have been consolidated within the consolidated financial statements:

Company	Registered	Principle activity
Bluesky Digital Assets Corp.	Canada	Parent Company
Bluesky Digital Assets Inc. ⁽¹⁾	Canada	Holding Company
MethodeVerte Inc. ⁽¹⁾	Canada	Holding Company
GP Self Storage Inc. ⁽¹⁾	Canada	Commercial Rental Company
GP Realty Inc. ⁽¹⁾	Canada	Holding Company
Bluesky Defi Inc. (formerly 63 Wellington Street Inc.) ⁽²⁾	Canada	Inactive
Bluesky Intelligence Inc. (formerly 1Balfour Place Inc.) ⁽²⁾	Canada	Inactive

⁽¹⁾ 100% owned by the Parent Company

⁽²⁾ 100% owned by GP Realty Inc

Basis of measurement

These unaudited condensed consolidated interim financial statements have been prepared on a historical cost basis except for certain financial instruments, which are measured at fair value as explained in these unaudited condensed consolidated interim financial statements. These unaudited condensed consolidated interim financial statements have been prepared using the accrual basis of accounting except for cash flow information.

Bluesky Digital Assets Corp.
Notes to the Condensed Interim Consolidated Financial Statements
Three Months Ended March 31, 2022
(Expressed in Canadian Dollars)
Unaudited

3. Significant accounting policies

Changes in accounting policies

Certain pronouncements were issued by the IASB or the IFRIC that are mandatory for accounting periods on or after January 1, 2022 or later periods. Many are not applicable or do not have a significant impact to the Company and have been excluded.

IAS 16 – Property, Plant and Equipment (“IAS 16”) was amended. The amendments introduce new guidance, such that the proceeds from selling items before the related property, plant and equipment is available for its intended use can no longer be deducted from the cost. Instead, such proceeds are to be recognized in profit or loss, together with the costs of producing those items. The amendments are effective for annual periods beginning on January 1, 2022. Adoption of the amendment did not have a significant impact on the Company's unaudited condensed consolidated interim financial statements.

IAS 37 – Provisions, Contingent Liabilities, and Contingent Assets (“IAS 37”) was amended. The amendments clarify that when assessing if a contract is onerous, the cost of fulfilling the contract includes all costs that relate directly to the contract – i.e. a full-cost approach. Such costs include both the incremental costs of the contract (i.e. costs a company would avoid if it did not have the contract) and an allocation of other direct costs incurred on activities required to fulfill the contract – e.g. contract management and supervision, or depreciation of equipment used in fulfilling the contract. The amendments are effective for annual periods beginning on January 1, 2022. Adoption of the amendment did not have a significant impact on the Company's unaudited condensed consolidated interim financial statements.

New standards not yet adopted and interpretations issued but not yet effective

There are no relevant IFRS's or IFRS interpretations that are not yet effective that would be expected to have a material impact on the unaudited condensed consolidated interim financial statements.

IAS 1 – Presentation of Financial Statements (“IAS 1”) was amended in January 2020 to provide a more general approach to the classification of liabilities under IAS 1 based on the contractual arrangements in place at the reporting date. The amendments clarify that the classification of liabilities as current or non current is based solely on a company's right to defer settlement at the reporting date. The right needs to be unconditional and must have substance. The amendments also clarify that the transfer of a company's own equity instruments is regarded as settlement of a liability, unless it results from the exercise of a conversion option meeting the definition of an equity instrument. The amendments are effective for annual periods beginning on January 1, 2023. The Company will adopt these amendments as of their effective date, and is currently assessing the impacts on adoption.

Amendments to IAS 8 – accounting policies, changes in accounting estimates and errors

The amendments to IAS 8 is applied in selecting and applying accounting policies, accounting for changes in estimates and reflecting corrections of prior period errors. The standard requires compliance with any specific IFRS applying to a transaction, event or condition, and provides guidance on developing accounting policies for other items that result in relevant and reliable information. Changes in accounting policies and corrections of errors are generally retrospectively accounted for, whereas changes in accounting estimates are generally accounted for on a prospective basis. The amendments effective for annual periods beginning on or after January 1, 2023, with early application permitted. No significant impact to the Company's financial statements is expected.

Bluesky Digital Assets Corp.
Notes to the Condensed Interim Consolidated Financial Statements
Three Months Ended March 31, 2022
(Expressed in Canadian Dollars)
Unaudited

4. Accounts receivable and other assets

	March 31, 2022	December 31, 2021
Subscription receipts and other receivables	\$ 5,013	\$ 126,913
Total accounts and other receivable	\$ 5,013	\$ 126,913

5. Notes receivable

	March 31, 2022	December 31, 2021
Balance, beginning of year	\$ 228,526	\$ 228,526
	228,526	228,526
Less: provision for notes receivables ⁽ⁱ⁾	(228,526)	(228,526)
Balance, end of year	\$ -	\$ -

⁽ⁱ⁾ During the year ended December 31, 2018, an impairment loss of \$228,525 was recorded on this loan and as at March 31, 2022 and December 31, 2021, this loan is carried at \$nil, net of the provision.

6. Digital currencies

The Company's holdings of digital currencies consist of the following:

	As at March 31, 2022	As at December 31, 2021
Bitcoin	\$ 1,118,750	\$ 967,166
Ethereum	1,559,555	1,440,276
	\$ 2,678,305	\$ 2,407,442

Bluesky Digital Assets Corp.
Notes to the Condensed Interim Consolidated Financial Statements
Three Months Ended March 31, 2022
(Expressed in Canadian Dollars)
Unaudited

6. Digital currencies (continued)

The continuity of digital currencies was as follows:

	Number of Bitcoin	Amount	Number of Ethereum	Amount	Total
Balance, December 31, 2020,	-	\$ -	-	\$ -	\$ -
Currency mined	30	1,732,678	588	1,993,525	3,726,203
Received from exercise of options	-	3,000	-	-	3,000
Currency traded for cash	(13)	(827,590)	(278)	(894,650)	(1,722,240)
Gain on sale of digital currencies	-	48,027	-	105,360	153,387
Revaluation adjustment ⁽¹⁾	-	11,051	-	236,041	247,092
Balance, December 31, 2021	17	967,166	310	1,440,276	2,407,442
Currency mined	4	239,925	90	340,658	580,583
Disposal of currency	-	(3,240)	-	-	(3,240)
Currency traded for cash	(1)	(67,479)	(20)	(66,026)	(133,505)
Loss on sale of digital currencies	-	(13,274)	-	(11,811)	(25,085)
Revaluation adjustment ⁽¹⁾	-	(4,348)	-	(143,542)	(147,890)
Balance, March 31, 2022	20	\$ 1,118,750	380	\$ 1,559,555	\$ 2,678,305

(1) Digital assets held are revalued each reporting period based on the fair market value of the price of Bitcoin and Ethereum on the reporting date. As at March 31, 2022, the prices of Bitcoin and Ethereum were \$56,932 and \$4,103, resulting in total revaluation loss of \$147,890 recorded to other comprehensive loss.

7. Property, plant and equipment

Cost	Data miners	Equipment	Computers	Total
Balance, December 31, 2020,	\$ 589,095	\$ 54,564	\$ 10,908	\$ 654,567
Additions	5,079,456	811,364	-	5,890,820
Disposals	(119,210)	-	-	(119,210)
Balance, December 31, 2021	5,549,341	865,928	10,908	6,426,177
Additions	1,016,250	40,010	1,864	1,058,124
Balance, March 31, 2022	\$ 6,565,591	\$ 905,938	\$ 12,772	\$ 7,484,301

Accumulated depreciation	Data miners	Equipment	Computers	Total
Balance, December 31, 2020	\$ (319,149)	\$ (54,564)	\$ (10,908)	\$ (384,621)
Depreciation for the year	(1,301,987)	(31,545)	-	(1,333,532)
Balance, December 31, 2021	(1,621,136)	(86,109)	(10,908)	(1,718,153)
Depreciation for the period	(361,034)	(22,050)	(256)	(383,340)
Balance, March 31, 2022	\$(1,982,170)	\$ (108,159)	\$ (11,164)	\$(2,101,493)

Carrying amount	Data miners	Equipment	Computers	Total
Balance, December 31, 2021	\$ 3,928,205	\$ 779,819	\$ -	\$ 4,708,024
Balance, March 31, 2022	\$ 4,583,421	\$ 797,779	\$ 1,608	\$ 5,382,808

Bluesky Digital Assets Corp.
Notes to the Condensed Interim Consolidated Financial Statements
Three Months Ended March 31, 2022
(Expressed in Canadian Dollars)
Unaudited

8. Right-of-use assets

The Company's right-of-use asset includes a digital mining facility in Quebec, Canada.

	As at March 31, 2022	As at December 31, 2021
Balance, beginning of period	\$ 223,859	\$ 101,871
Depreciation	(15,739)	(67,914)
Addition	-	189,902
Balance, end of period	\$ 208,120	\$ 223,859

9. Lease liabilities

A reconciliation of the carrying amount of the lease liabilities is as follows:

	Buildings
Balance, December 31, 2020	\$ -
Additions	139,677
Interest expense	7,131
Lease payments	(109,736)
Addition	189,902
Balance, December 31, 2021	226,974
Interest expense	3,325
Lease payments	(18,972)
Balance, March 31, 2022	\$ 211,327

	As at March 31, 2022	As at December 31, 2021
Short-term lease expense	\$ 65,799	\$ 37,071
Long-term leases liabilities	145,528	189,903
	\$ 211,327	\$ 226,974

	Under 1 year	Between 1 - 2 years	Between 3 - 5 years	Over 5 years	Total
Buildings	\$ 65,799	\$ 145,528	\$ -	\$ -	\$ 211,327
Total	\$ 65,799	\$ 145,528	\$ -	\$ -	\$ 211,327

As at March 31, 2022, the total undiscounted amount of the estimated future cash flows to settle the Company's lease liabilities over the remaining lease terms is \$37,942.

Short-term leases are leases with a lease term of twelve months or less. As at March 31, 2022, the Company did not have any short-term leases. As at March 31, 2021, the Company had one short-term lease which has been accounted for as an operating lease. As at March 31, 2022, there were no extension options that were reasonably certain to be exercised included in the measurement of the lease liabilities, and there were no leases with residual value guarantees.

Bluesky Digital Assets Corp.
Notes to the Condensed Interim Consolidated Financial Statements
Three Months Ended March 31, 2022
(Expressed in Canadian Dollars)
Unaudited

9. Lease liabilities (continued)

Net investment in sublease

On November 28, 2019, the Company entered into a sublease whereby its lease at 8 King Street East is assigned to an external unrelated party. The term of the sublease is for one year and nine months, commencing on January 1, 2020 and expired on September 29, 2021.

The Company has classified this sublease as a finance lease, because the sublease covers the remaining term of the head lease.

The continuity of the net investment in sublease is presented in the table below:

	As at March 31, 2022	As at December 31, 2021
Balance, beginning of period	\$ -	\$ 32,751
Interest income on investment in sublease	-	1,101
Lease payments	-	(33,852)
	\$ -	\$ -

10. Investments

	March 31, 2022		December 31, 2021	
	Number of shares	Estimated fair market value	Number of shares	Estimated fair market value
Workspport Ltd.	13,561	44,398	13,561	41,606
Cheetah Canyon Resources Corp.	1,698,850	-	1,698,850	-
Chess Supersite Corp	300,000	3,186	300,000	2,853
Eastwest Bioscience Inc.	658,182	9,873	658,182	13,164
Astro Airspace Ltd	500,000	5,357	500,000	37,442
Hemp Inc.	24,000,000	29,990	24,000,000	54,769
Total investments		\$ 92,804		\$ 149,834
Classification				
Short-term investments		92,804		149,834
Total investments		\$ 92,804		\$ 149,834

Bluesky Digital Assets Corp.
Notes to the Condensed Interim Consolidated Financial Statements
Three Months Ended March 31, 2022
(Expressed in Canadian Dollars)
Unaudited

11. Accounts payable and accrued liabilities

	As at March 31, 2022	As at December 31, 2021
Trade and other payables	\$ 3,046	\$ 7,495
Accrued liabilities	1,530,280	978,810
Other payables	12,330	12,330
Total	\$ 1,545,656	\$ 998,635

12. Warrant liability

The Company has completed the following issuances of warrants:

Closing date	October 13, 2021
Warrants issued	10,077,522
Warrants exercised	\$ 0.430
Fair value of warrants issued	\$ 0.270
Warrant term	60 months
Warrant valuation assumptions	
Valuation model	Black-Scholes
Weighted average risk free interest rate	1.11 %
Estimated common share weighted average price volatility	174.80 %
Expected dividend yield	nil %
Estimated weighted average life in years	5.00

Details related to the warrant liability are summarized below.

	Number of warrants	Amount
Balance, December 31, 2020	-	\$ -
Issued	10,077,552	2,747,609
Fair value adjustment	-	(206,374)
Balance, December 31, 2021	10,077,552	\$ 2,541,235
Fair value adjustment	-	(634,780)
Balance, December 31, 2021	10,077,552	\$ 1,906,455

The Company recorded a non-cash gain on the revaluation of warrant liability of \$634,780 during the three months ended March 31, 2022 (three months ended March 31, 2021 - \$nil).

Bluesky Digital Assets Corp.
Notes to the Condensed Interim Consolidated Financial Statements
Three Months Ended March 31, 2022
(Expressed in Canadian Dollars)
Unaudited

12. Warrant liability (continued)

The Black-Scholes model and the inputs used in determining the values of the warrants prior to the derecognition of financial liability warrants are as follows:

	As at March 31, 2022	As at December 31, 2021
Common share market price	\$ 0.195	\$ 0.270
Weighted average risk free interest rate	2.37 %	1.11 %
Estimated common share weighted average price volatility	215.98 %	176.85 %
Expected dividend yield	nil %	nil
Estimated weighted average life in years	4.54	4.75

13. Loans payable

	March 31, 2022	December 31, 2021
Balance, beginning of year	\$ 70,000	\$ 151,722
Interest	-	178
Repayment - other loan	-	(32,955)
Repayment - CEBA loan	-	(28,945)
Forgiveness as per CEBA loan agreement	-	(20,000)
Balance, end of period	\$ 70,000	\$ 70,000
Classification:		
	March 31, 2022	December 31, 2021
Short-term loans payable	\$ -	\$ -
Long-term loans payable	70,000	70,000
Total loans payable	\$ 70,000	\$ 70,000

Canada Emergency Business Account (CEBA) loan

During the year ended December 31, 2021, the Company repaid \$28,945 in Canada Emergency Business Account (CEBA) loan, funded by the Federal Government. The terms of the loans is: Interest rate is 0% per year, but subject to the interest rate disclosed below in the loan extension section; loan repayment in whole or in part on or after July 1, 2020; \$30,000 (25%) of the \$118,945 loan is eligible for complete forgiveness if \$90,000 (75%) is fully repaid on or before December 31, 2022. Loan extension terms are: If the loan cannot be repaid by December 31, 2022, it will be converted into a 3 year term loan, charging an interest rate of 5%; Interest payments are due monthly and the outstanding principal balance must be fully repaid no later than December 31, 2025. However, the Company may repay some or all of the loan at any time. During the year ended December 31, 2021, the Company repaid \$28,945 and recorded \$20,000 as gain on debt forgiveness in the unaudited condensed consolidated interim statements of loss.

Subsequent to year-end, the Government of Canada announced that the deadline to repay loans under the Canada Emergency Business Account program would be extended by one year (that is from December 31, 2022 to December 31, 2023). As of January 1, 2024, the loan balance will bear interest at 5% and will be repayable on maturity on December 31, 2025.

Bluesky Digital Assets Corp.
Notes to the Condensed Interim Consolidated Financial Statements
Three Months Ended March 31, 2022
(Expressed in Canadian Dollars)
Unaudited

13. Loans payable (continued)

Other loan

On June 1, 2017, the Company borrowed \$50,000 from an unrelated party. The secured promissory note bears interest of 8% per annum and has a maturity of May 31, 2022. The note was secured by a mortgage charge on the 1209 Hickory Road property and upon the sale of the property the note was secured on the assets of the Company totaling the outstanding amount of the note. As at December 31, 2021, the loan has been fully repaid and the carrying value of loan is \$nil as of March 31, 2022, and December 31, 2021.

On July 10, 2017, the Company borrowed USD\$100,000 (\$124,654) from an unrelated party. The secured promissory note bears interest of 8% per annum and has a maturity of October 1, 2019. During the three months ended March 31, 2021, the loan has been fully repaid.

14. Share capital

As at March 31, 2022, the Company's authorized share capital consists of unlimited number of voting common shares, 6,591,157 non-voting, cumulative, "Class – A" preferred shares and "Class – B" preferred shares that are redeemable at the option of the Company at fair value.

a) Preferred shares

Class A	Number of preferred shares	Amount
Balance, December 31, 2020	493,020	\$ 2,877,355
Conversion to common shares units (i)	-	(835,170)
Balance, March 31, 2021, December 31, 2021 and March 31, 2022	493,020	\$ 2,042,185

(i) During the three months ended March 31, 2021, a total of 782,779 Units were issued to reacquire 83,517 Class – A preferred shares with a value of 835,170 into treasury.

Preferred shares to be registered

During the year ended December 31, 2020, the Company repurchased its own Class – A preferred shares from a related party through a series of multiple transactions. As at December 31, 2018 the Company had paid \$52,567 to be applied to preferred shares, which was included in other receivables. During fiscal 2020, an additional \$24,000 in cash was paid, along with issuance of 513,400 common shares with a value of \$51,330, and forgave the balance of a note receivable from an entity controlled by the related party in the amount of \$225,160 (Note 5). In exchange for all of these amount, the Company received 26,500 preferred shares, with a value of \$353,057. The preferred shares certificates have been physically received but had not yet been registered back into the Company's name and are therefore held in a separate account within equity at March 31, 2022.

Class B	Number of common shares	Amount
Balance, December 31, 2020, March 31, 2021, December 31, 2021 and March 31, 2022	1,250	\$ 12,500

Bluesky Digital Assets Corp.
Notes to the Condensed Interim Consolidated Financial Statements
Three Months Ended March 31, 2022
(Expressed in Canadian Dollars)
Unaudited

14. Share capital (continued)

b) Common shares

On May 12, 2020, the Company consolidated its common shares on the basis of 1 new common share for every 12 common shares outstanding. All references to common shares, per share amounts, warrants and options for all periods presented have been retroactively restated to reflect this consolidation.

	Number of common shares	Amount
Balance, December 31, 2020	27,844,731	\$ 13,316,732
Common shares issued (i)	5,094,779	3,024,851
Value of warrants granted (i)	-	(215,732)
Cost of issue (i)	-	(139,848)
Common shares issued for debt (iii)	119,048	100,000
Warrants exercised	794,289	820,359
Share-based compensation	2,045,001	718,447
Balance, March 31, 2021	35,897,848	\$ 17,624,809
Balance, December 31, 2021	49,956,814	\$ 18,909,602
Common shares issued (ii)	9,235,000	2,308,750
Value of warrants granted (ii)	-	(58,625)
Cost of issue (ii)	-	(339,095)
Balance, March 31, 2022	59,191,814	\$ 20,820,632

(i) Common shares issued - 2021

On January 15, 2021, the Company closed a non-brokered private placement offering of 4,366,000 Units for gross proceeds of \$2,183,000. Each Unit consisted of one Common Share in the capital of the Company and one Common Share Purchase Warrant, with each Warrant entitling the holder thereof the ability to purchase one additional Common Share of the Company at an exercise price of \$1.00 per Common Share for a period of 36 months from the closing of the financing. The fair value of the 4,366,000 warrants was estimated as \$nil.

The Company incurred total of \$139,848 of share issue costs in relation to the common shares issued above. The Company issued 93,120 warrants to brokers. Each Warrant entitling the holder thereof the ability to purchase one additional Common Share of the Company at an exercise price of \$1.00 per Common Share for a period of 36 months. The fair value of the 93,120 warrants was estimated as \$78,188 using the Black-Scholes option pricing model with the following assumptions: 200% expected volatility; a risk-free interest rate of 0.20%; an expected dividend yield of Nil%; and 36 months expected term.

During the three months ended March 31, 2021, the Company acquired 83,517 of its Class – A Preferred Shares by issuing 782,779 Units of the Company to the former holders of the Class – A Preferred Shares. The Units were issued at a price between \$0.60 and \$1.50 per Unit. Each Unit consisted of one Common Share in the capital of the Company and one Common Share Purchase Warrant, with each Warrant entitling the holder thereof the ability to purchase one additional Common Share of the Company at an exercise price between \$0.90 and \$2.00 per Common Share for a period of 36 months. The fair value of the 782,779 warrants was estimated as \$215,732.

Bluesky Digital Assets Corp.
Notes to the Condensed Interim Consolidated Financial Statements
Three Months Ended March 31, 2022
(Expressed in Canadian Dollars)
Unaudited

14. Share capital (continued)

b) Common shares (continued)

(ii) Common shares issued - 2022

In January 2021, the Company closed various tranches of a non-brokered private placement offering for 9,235,000 Units for gross proceeds of \$2,308,750. Each Unit consisted of one Common Share in the capital of the Company and one Common Share Purchase Warrant, with each Warrant entitling the holder thereof the ability to purchase one additional Common Share of the Company at an exercise price of \$0.40 per Common Share for a period of 36 months from the closing of the financing. The fair value of 9,235,000 warrants was estimated as \$58,625.

The Company incurred total of \$339,095 of share issue costs in relation to the common shares issued above. The Company issued 971,600 warrants to brokers. Each Warrant entitling the holder thereof the ability to purchase one additional Common Share of the Company at an exercise price of \$0.40 using the Black-Scholes option pricing model with the following assumptions: expected volatility between 233% - 262%; a risk-free interest rate between 1.16% - 1.43%; an expected dividend yield of Nil%; and 36 months expected term.

(iii) Common shares issued for debt - 2021

The Company issued 119,048 common shares, as per agreements for the total accounts payable for services and compensation of \$100,000.

15. Warrant reserve

	Number of warrants	Fair value of warrants	Weighted average exercise price
Balance, December 31, 2020	13,532,860	\$ 1,160,869	\$ 0.40
Issued (note 14)	4,963,787	1,196,475	1.02
Expired	(27,777)	(4,037)	0.90
Exercised	(794,289)	(105,125)	0.90
Balance, March 31, 2021	17,674,581	\$ 2,248,182	\$ 0.54
Balance, December 31, 2021	19,299,712	\$ 3,355,097	\$ 0.50
Issued (notes 14 and 15(i))	11,706,600	627,609	0.38
Balance, March 31, 2022	31,006,312	\$ 3,982,706	\$ 0.48

(i) On January 13, 2022, the Company granted 1,500,000 bonus warrants to officers and consultants at an exercise price of \$0.24 for a period of 3 years from the date of issuance. The estimated fair value of the warrants at the grant date was \$337,189 using the Black-Scholes option pricing model. The underlying weighted average assumptions used in the estimation of fair value in the Black-Scholes valuation model were as follows: dividend yield 0%, expected annual volatility of 233%, risk free rate of return of 1.21% and an expected life of 3 years. On February 22, 2024, the warrants were repriced to \$0.17. There was change in the incremental value of the warrants.

Bluesky Digital Assets Corp.
Notes to the Condensed Interim Consolidated Financial Statements
Three Months Ended March 31, 2022
(Expressed in Canadian Dollars)
Unaudited

15. Warrants reserve (continued)

The following table reflects the warrants issued and outstanding as of March 31, 2022:

Expiry date	Number of warrants	Grant date fair value	Exercise price
April 15, 2022 ⁽¹⁾	340,833	\$ 105,547	\$ 0.08
February 1, 2023	7,352,778	319,642	0.15
January 15, 2024	4,459,120	78,188	1.00
March 11, 2024	376,667	-	0.90
March 11, 2024	128,000	37,738	2.00
April 6, 2024 ⁽²⁾	3,250,000	2,415,750	0.17
April 8, 2024	278,112	177,994	1.50
December 30, 2024	2,308,000	-	0.40
January 7, 2025	5,175,600	209,039	0.40
January 10, 2025	1,000,000	10,000	0.40
January 11, 2025	2,020,000	-	0.40
January 11, 2025	1,500,000	337,189	0.17
January 18, 2025	1,903,000	66,213	0.40
February 1, 2025	108,000	5,168	0.17
September 29, 2026	806,202	220,238	0.40
	31,006,312	\$ 3,982,706	\$ 0.48

(1) Subsequent to the period, the warrants expired.

(2) On February 22, 2024, the warrants were repriced to \$0.17 and here was change in the incremental value of the warrants.

16. Contributed surplus

a) Shared-based compensation

Employee share option plan

The shareholders of the Company approved the Company's existing stock option plan, the "Plan", to be administered by the directors of the Company. Under the Plan, the Company may grant to directors, officers, employees and consultants options to purchase shares of the Company. The Plan provides for the issuance of stock options to acquire up to 10% of the Company's issued and outstanding capital. The plan is a rolling plan as the number of shares reserved for issuance pursuant to the grant of stock options will increase as the Company's issued and outstanding share capital increases.

During the three months ended March 31, 2022, \$nil (three months ended March 31, 2021 - \$1,709,000) of stock-based compensation was recorded in the unaudited condensed consolidated interim statement of loss for nil stock options (three months ended March 31, 2021 - 2,225,000) granted to directors, officers, former officers and consultants of the Company.

The fair value at grant date is determined using the Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option. The Company grants all employee stock options with an exercise price equal to or greater than the market value of the underlying common shares on the date of grant.

Bluesky Digital Assets Corp.
Notes to the Condensed Interim Consolidated Financial Statements
Three Months Ended March 31, 2022
(Expressed in Canadian Dollars)
Unaudited

16. Contributed surplus (continued)

a) Shared-based compensation (continued)

Employee share option plan (continued)

	Number of stock options	Fair value of stock options	Weighted average exercise price
Balance, December 31, 2020	2,462,500	\$ 615,070	\$ 0.28
Granted	2,225,000	1,709,000	0.60
Expired	(166,667)	(28,420)	0.60
Exercised	(2,045,001)	(411,697)	0.60
Balance, March 31, 2021	2,475,832	\$ 1,883,953	\$ 0.28
Balance, December 31, 2021 and March 31, 2022	4,859,166	\$ 2,615,403	\$ 0.33

The fair value of share price at the time of exercise ranged between \$0.12 and \$1.38.

The following table reflects the actual stock options issued and outstanding as of March 31, 2022:

Expiry date	Exercise price (\$)	Estimated fair value at grant date	Number of options outstanding and exercisable	Fair value price (\$)	Expected volatility	Expected life (years)	Expected dividend yield	Risk-free interest rate
November 20, 2023	0.25	37,000	300,000	0.12	197%	3	0%	0.30%
January 4, 2024	0.60	365,000	600,000	0.63	201%	3	0%	0.33%
January 18, 2024	0.60	83,000	100,000	0.86	200%	3	0%	0.20%
January 18, 2024 ⁽¹⁾	0.17	1,272,000	1,525,000 ⁽¹⁾	0.86	200%	3	0%	0.20%
July 6, 2024	0.50	165,000	500,000	0.45	199%	3	0%	0.66%
July 6, 2024 ⁽¹⁾	0.17	529,000	1,600,000	0.45	199%	3	0%	0.66%
September 4, 2024	0.15	38,000	83,333	0.46	188%	5	0%	1.85%
October 18, 2024	0.15	12,743	63,333	0.20	228%	3.9	0%	0.38%
May 5, 2026	1.44	98,160	70,833	1.39	143%	10	0%	0.98%
June 19, 2027	1.20	15,500	16,667	0.93	131%	10	0%	1.54%
		\$ 2,615,403	4,859,166					

(1) On February 22, 2024, the warrants were repriced to \$0.17 and here was change in the incremental value of the options.

Expected volatility is an average of the Company's share price volatility, which is a measure of the amount by which price has fluctuated during an observed period. The observed period should be the same as the expected life of an option.

Bluesky Digital Assets Corp.
Notes to the Condensed Interim Consolidated Financial Statements
Three Months Ended March 31, 2022
(Expressed in Canadian Dollars)
Unaudited

17. General and administrative

	Three Months Ended March 31, 2022	Three Months Ended March 31, 2021
Management fees (note 19)	\$ 133,641	\$ 170,000
Loan interest and fees	3,325	2,204
Consulting and other professional fees (note 19)	11,268	9,361
General and administration	5,297	8,893
Marketing and investor relations	38,409	136,513
Travel and accommodations	6,420	2,058
Legal and audit	87,379	30,233
Transfer agent and filing fees	25,101	26,257
Non-recoverable input tax credits	54,172	25,922
Depreciation and amortization (note 7)	256	8,264
Total operating expenses	\$ 365,268	\$ 419,705

18. Basic and diluted loss per share

The calculation of basic and diluted loss per share for the three months ended March 31, 2022, was based on the loss attributable to common shareholders of \$586,237 (three months ended March 31, 2021 - \$1,244,146) and the weighted average number of common shares outstanding of 51,590,517 (three months ended March 31, 2021 - 33,836,819). Diluted loss per share did not include the effect of 31,006,312 warrants or 4,859,166 stock options for the three months ended March 31, 2022 (three months ended March 31, 2021 - 17,674,581 warrants or 2,475,832 stock options) as their effect is anti-dilutive.

19. Related party transactions

Key management personnel includes the Board of Directors of the Company, officers, and close family members and enterprises which are controlled by these individuals, as well as certain persons performing similar functions.

(a) Remuneration of directors and key management personnel, other than consulting fees, of the Company was as follows:

	Three Months Ended March 31, 2022	2021
Management fees	\$ 127,741	\$ 170,000
Consulting and other professional fees	11,826	9,361
Share-based payments	337,189	1,250,769
	\$ 476,756	\$ 1,430,130

Bluesky Digital Assets Corp.
Notes to the Condensed Interim Consolidated Financial Statements
Three Months Ended March 31, 2022
(Expressed in Canadian Dollars)
Unaudited

20. Subsequent event

Subsequent to the three months ended March 31, 2022, 340,833 stock options expired unexercised.

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